

REPORT OF THE
OFFICE OF THE AUDITOR GENERAL
TO THE
JOINT LEGISLATIVE AUDIT COMMITTEE

288

FINANCIAL AUDIT OF THE
MILITARY DEPARTMENT
YEAR ENDED JUNE 30, 1977



Joint Legislative Audit Committee

OFFICE OF THE AUDITOR GENERAL

California Legislature



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May 4, 1978

288

The Honorable Speaker of the Assembly
The Honorable President pro Tempore of the Senate
The Honorable Members of the Senate and the
Assembly of the Legislature of California

Members of the Legislature:

Your Joint Legislative Audit Committee respectfully forwards the
Auditor General's financial audit of the Military Department,
Year Ended June 30, 1977.

The auditors are Curt Davis, CPA, Audit Supervisor; Ulrich Pelz;
and Daniel G. Perez.

Sincerely,

MIKE CULLEN
Chairman

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INTRODUCTION

In response to a resolution of the Joint Legislative Audit Committee, we have conducted a fiscal audit of the Military Department. This audit was conducted under authority vested in the Auditor General by Section 10527 of the Government Code.

The Military Department is an organization to support the Constitution and to protect life and property during periods of civil disturbance, emergency or disaster. It also furnishes trained units for federal mobilization and for state missions as required by the Military and Veterans Code or as directed by the Governor.

The Department is comprised of the Office of the Commanding General of the State Military Forces, the California National Guard, the State Military Reserve, the California Cadet Corps and the Naval Militia.

The California National Guard has both a state and federal mission. Direct federal funds expended for the National Guard are accounted for by the United States Property and Fiscal Officer (USPFO). These funds are not accounted for by the Military Department, but are included in the Governor's Budget for 1978-79. Direct federal funds to the Military Department amounted to \$108.7 million in fiscal year 1976-77.

The enclosed financial statements reflect only the \$13.5 million expenditures accounted for by the Military Department. Of the State's expenditures, \$5.1 million was reimbursed by the Federal Government, and about \$400,000 was reimbursed primarily by state sources. The General Fund expenditures of the Military Department after reimbursements therefore amounted to \$8 million, or about 60 percent of the gross expenditures accounted for by the State.

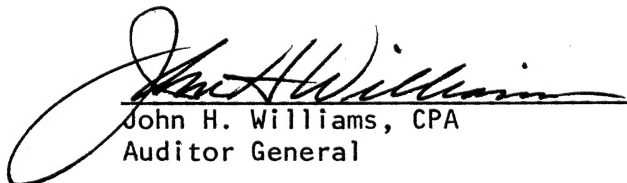
AUDITOR'S OPINION

The Joint Legislative Audit Committee
of the California Legislature:

We have examined the statement of financial condition of the Military Department as of June 30, 1977, and the related statements of general fixed assets, changes in operating clearing, budgeted and actual expenditures, and revenues for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying financial statements present fairly the financial condition of the Military Department as of June 30, 1977, and the results of operations and its changes in operating clearing for the year then ended in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

The statement of financial condition of the Military Department as of June 30, 1976, and the related statements of general fixed assets, budgeted and actual expenditures and revenues for the year then ended, which are presented for comparative purposes only, were not audited by us and, accordingly, we do not express an opinion on them.


John H. Williams, CPA
Auditor General

Date: March 31, 1978

Staff: Curt Davis, CPA
Ulrich Pelz
Daniel Perez

MILITARY DEPARTMENT
GENERAL FUND
STATEMENT OF FINANCIAL CONDITION
JUNE 30, 1977

(With Unaudited Amounts for June 30, 1976)

	<u>June 30,</u> <u>1977</u>	<u>June 30,</u> <u>1976</u>
<u>Assets</u>		
Cash	\$ 169,835	\$ 40,137
Accounts Receivable - Reimbursements (Note 4)	582,651	845,572
Accounts Receivable - Revenue	43,200	330
Accounts Receivable - Other	3,314	3,314
Prepayments to Service Revolving Fund	1,722	39,365
Expense Advances to Employees	<u>9,742</u>	<u>6,859</u>
Total Assets	<u>\$ 810,464</u>	<u>\$ 935,577</u>
<u>Liabilities, Reserves and Operating Clearing</u>		
Accounts Payable (Note 2)	\$ 906,064	\$1,172,595
Encumbrances Outstanding (Note 2)	<u>278,498</u>	<u> </u>
Total Liabilities (Note 3)	<u>\$1,184,562</u>	<u>\$1,172,595</u>
Reserve for Deferred Accounts Receivable (Note 4)	\$ 230,602	\$ 3,254
Reserve for Uncleared Collections	<u>14,710</u>	<u>27,868</u>
Total Reserves	<u>\$ 245,312</u>	<u>\$ 31,122</u>
Operating Clearing, per Exhibit C (Note 5)	<u>\$ (619,410)</u>	<u>\$ (268,140)</u>
Total Liabilities, Reserves and Operating Clearing	<u>\$ 810,464</u>	<u>\$ 935,577</u>

The accompanying notes are an integral part of these financial statements.

MILITARY DEPARTMENT
GENERAL FUND
STATEMENT OF GENERAL FIXED ASSETS
JUNE 30, 1977

(With Unaudited Amounts for June 30, 1976)

	June 30, <u>1977</u>	June 30, <u>1976</u>
<u>General Fixed Assets</u> (Note 6)		
Land	\$ 2,469,741	\$ 2,469,741
Improvements	25,994,651	25,740,830
Equipment	2,414,664	2,045,076
Advances to Architecture Revolving Fund	<u>444,299</u>	<u>677,373</u>
Total General Fixed Assets	<u>\$31,323,355</u>	<u>\$30,933,020</u>
 <u>Reserves for General Fixed Assets</u>		
Reserve for Investment in Fixed Assets	\$30,879,056	\$30,255,647
Reserve for Advances to Architecture Revolving Fund	<u>444,299</u>	<u>677,373</u>
Total Reserves for General Fixed Assets	<u>\$31,323,355</u>	<u>\$30,933,020</u>

The accompanying notes are an integral part of these financial statements.

MILITARY DEPARTMENT
GENERAL FUND
STATEMENT OF CHANGES IN OPERATING CLEARING
FOR THE YEAR ENDED JUNE 30, 1977

Operating Clearing, June 30, 1976	\$ <u>(268,140)</u> Dr.
Additions:	
Revenues (Exhibit E)	\$ 59,375
Refunds to Reverted Appropriation	40
Prior Year Income Adjustments	(200)
Net Disbursements per State Controller	<u>7,577,185</u>
Total Additions	<u>\$7,636,400</u>
Deductions:	
Net Appropriation Expenditures (Exhibit D)	\$8,058,670
Prior Year Appropriation Adjustments	<u>(71,000)</u>
Total Deductions	<u>\$7,987,670</u>
Operating Clearing, June 30, 1977	<u>\$ (619,410) Dr.</u>

The accompanying notes are an integral part of these financial statements.

MILITARY DEPARTMENT
GENERAL FUND
STATEMENT OF BUDGETED AND ACTUAL EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 1977

(With Unaudited Amounts for the Year Ended June 30, 1976)

	Budget As Adjusted	Actual	(Over) Under Budget	Actual Prior Year
<u>Chapter 320/76, Item 71 (Support)</u>				
Personal Services	\$ 9,638,888	\$ 9,026,679	\$ 612,209	\$ 7,964,370
Operating Expenses and Equipment:				
General Expense	\$ 218,330	\$ 197,656	\$ 20,674	\$ 187,227
Facilities Operations	3,127,777	1,709,928	1,417,849	1,539,944
Rent	300,176	251,176	49,000	324,872
Communications	341,605	339,975	1,630	287,318
Travel	556,396	413,688	142,708	201,627
Security	72,457	68,145	4,312	71,525
Consultants	41,264	28,766	12,498	7,834
Equipment	268,444	241,481	26,963	346,552
Total Operating Expenses and Equipment	\$ 4,926,449	\$ 3,250,815	\$1,675,634	\$ 2,966,899
Minor Capital Outlay	\$ 55,700	\$ 55,677	\$ 23	\$ 50,000
Gross Expenditures	\$14,621,037	\$12,333,171	\$2,287,866	\$10,981,269
Less: Federal Reimbursements	\$ 6,445,904	\$ 5,097,573	\$1,348,331	\$ 3,934,295
Other Reimbursements	1,152,104	389,276	762,828	630,894
Total Reimbursements	\$ 7,598,008	\$ 5,486,849	\$2,111,159	\$ 4,565,189
Net Expenditures, Item 71	\$ 7,023,029	\$ 6,846,322	\$ 176,707	\$ 6,416,080
<u>Chapter 320/76, Item 72</u>				
Military Retirement (Note 3)	\$ 778,892	\$ 761,065	\$ 17,827	\$ 690,864
<u>Chapter 320/76, Item 73 (California Cadet Corps)</u>				
Personal Services	\$ 107,192	\$ 100,160	\$ 7,032	\$ 71,820
Operating Expenses and Equipment	142,490	142,323	167	62,470
Total Expenditures, Item 73	\$ 249,682	\$ 242,483	\$ 7,199	\$ 134,290
<u>Chapter 543/75 (Major Capital Outlay)</u>				
Plans and Specifications (Note 7)	\$ 208,800	\$ 208,800	\$ -0-	\$ 28,200
<u>Chapter 129/73, Item 332 (Major Capital Outlay)</u>				
Plans and Specifications	\$ -0-	\$ -0-	\$ -0-	\$ 86,020
Total Net Expenditures	\$ 8,260,403	\$ 8,058,670	\$ 201,733	\$ 7,355,454

The accompanying notes are an integral part of these financial statements.

MILITARY DEPARTMENT
GENERAL FUND
STATEMENT OF REVENUE
FOR THE YEAR ENDED JUNE 30, 1977

(With Unaudited Amounts for the Year Ended June 30, 1976)

	<u>Current Year</u>	<u>Prior Year</u>
Rent	\$49,614	\$12,121
Other	<u>9,761</u>	<u>4,934</u>
Total Revenues	<u>\$59,375</u>	<u>\$17,055</u>

The accompanying notes are an integral part of these financial statements.

MILITARY DEPARTMENT
GENERAL FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1977

1. Summary of Significant Accounting Policies

The accounting policies of the Military Department conform to generally accepted accounting principles as applicable to governmental units and as contained in the State Administrative Manual. The Military Department accounts for only its portion of the State's General Fund. Central accounts for the General Fund are maintained by the State Controller's Office.

Income: During the year income accounts are maintained on a cash basis. At June 30, accrued receivables estimated to be collected during the following fiscal year are credited to the year in which they are earned. Accrued receivables for which collection is indefinite are fully reserved until collected.

Expenditures: During the year appropriation expenditures are, in general, recorded at the time claims for payment are filed with the State Controller. An exception to this procedure occurs when transfers of money to the Architecture Revolving Fund for capital outlay are recorded as expended at the time

of transfer, even though the actual expenditures from that fund may not occur until a later date. At June 30, all valid encumbrances against appropriations are accrued as expenditures.

2. Recorded Liabilities

Accounts payable include all unpaid liabilities for goods and services received as of June 30, 1977. Accordingly, they also include liabilities for which disbursement requests were submitted to the State Controller's Office by June 30, 1977 ("Claims Filed"), but which were unpaid by the Controller's Office as of that date.

Encumbrances outstanding include all valid commitments against budget appropriations for which no goods or services had been received by June 30, 1977.

The separation between accounts payable and encumbrances outstanding was not available for June 30, 1976.

3. Unrecorded Liabilities

Military Retirement: Members ordered to state active duty prior to October 1, 1961, were authorized under Chapter 2174, Statutes of 1961, to either join the Public Employees' Retirement System (PERS) or to remain under the state military retirement program. Members ordered to state active duty after October 1, 1961, must join PERS.

In June 1977, 47 retired members or beneficiaries received benefits under the state military retirement program. Seven more members will be eligible under this program upon retirement.

The state military retirement program benefits are financed entirely by a yearly General Fund appropriation. For this purpose, \$778,892 was appropriated for fiscal year 1976-77. As of June 30, 1977, the unfunded actuarial liability for the military retirement program is estimated to be approximately \$11,000,000.

Public Employees' Retirement System: All employees, other than those covered by the state military retirement program, are members of the Public Employees' Retirement System (PERS). According to the Report of the State Controller, not all of the actuarial obligation under PERS is currently funded. The Military Department's portion of the unfunded obligation is unknown.

Vacation Pay: The accrued liability for vacation is not recorded on the statements. The related expenditures are recorded when paid. For civil service employees, unused vacation is transferable among departments of the State of California. The liability for unused vacation at June 30, 1977 for the Military Department is therefore not readily determinable.

4. Deferred Accounts Receivable

Deferred accounts receivable consist of receivables for which collection is uncertain. The accounts are included in Accounts Receivable and are fully reserved in the Reserve for Deferred Accounts Receivable account.

Of the \$230,602 included as deferred accounts receivable at June 30, 1977, \$226,816 is for state overhead charges allocated to federal contracts. Negotiations with the Federal Government concerning the legality of the overhead charges are still in progress.

5. Operating Clearing

This account is the connecting link between the Military Department's portion of the General Fund and the central accounts of the General Fund maintained by the State Controller's Office. The account balance at June 30, 1977 represents a clearing account between the Military Department and the State Controller's Office.

6. General Fixed Assets

Land, improvements and equipment are recorded as expenditures in the year of acquisition or encumbrance. Except for certain land mentioned below, the acquisition cost or appraisal value at time of acquisition is capitalized and fully reserved for financial statement purposes.

Donated land was carried at nominal values prior to 1968. To bring the valuation into conformity with generally accepted accounting principles and the State Administrative Manual, this land was then revalued to appraisal values existing in 1968.

Advances to Architecture Revolving Fund are for capital improvement projects. Advances are recorded as expenditures in the year of transfer although the actual expenditure from the Architecture Revolving Fund may not occur until a later date. Advances in excess of expenditures are returned after completion of the project.

7. Plans and Specifications

The amount of \$208,800 represents the budget available for fiscal year 1976-77 for plans and specifications of the Antelope Valley armory at Palmdale. The total authorized budget for Chapter 543/75 was \$237,000 of which \$28,200 was transferred to the Architecture Revolving Fund during fiscal year 1975-76.

COMMENTS AND RECOMMENDATIONS

The following matters, in our opinion, need improvement or warrant closer attention.

Recording Reimbursements

The Military Department is entitled to receive reimbursements from the Office of Criminal Justice Planning for expenditures incurred in operating the California Specialized Training Institute (CSTI). Reimbursement requests are recorded in the invoice register only after the money has been received and remitted to the State Treasurer. Recording in the ledger at the time the requests are submitted would strengthen accountability for billings and collections.

Recommendation

We recommend that reimbursement requests for CSTI be recorded in the invoice register at the time of submission.

Delay in Submitting Federal
Reimbursement Requests

During fiscal year 1976-77, the Military Department received \$5.1 million from the Federal Government as reimbursement for expenditures incurred in various programs. Requests for these reimbursements are not submitted in a timely manner. As a result, the State loses

interest income. In addition, the delayed requests for reimbursement have caused budgetary problems during the last months of the fiscal year. The budgetary problems are caused when the State Controller's net disbursements reach the limit of the budget item which is defined by budgeted expenditures minus budgeted reimbursements.

Recommendation

We recommend that reimbursement requests be submitted monthly as soon as most of the expenditures are accounted for. Supplemental requests can be submitted for additions or corrections. This recommendation also applies to reimbursements for CSTI.

Remittance of Collections Delayed

A substantial portion of reimbursements and revenues, once received, are held in the agency bank account for an excessive time prior to remittance to the State Treasurer. In accordance with Section 8091 of the State Administrative Manual (SAM), agencies are required to remit to the State Treasurer all monies received at least monthly. For accumulated amounts of \$100,000 or more, remittances are required weekly.

Recommendation

We recommend that remittances be made to the State Treasurer within the time limits set by SAM Section 8091.

Cash Trust Receipts Book Unnecessary

The Military Department uses a different cash receipts book for cash received for the Special Deposit Fund. This creates unnecessary complications in the routine bookkeeping process and increases the potential for bookkeeping errors.

Recommendation

We recommend the cash trust receipts book be eliminated since the types of receipts have to be differentiated anyway for remittance to the State Treasurer.

Inadequate Follow-Up Procedures On
Accounts Receivable

We noted that insufficient collection efforts were made for several accounts receivable which were long overdue.

Recommendation

We recommend that accounts receivable be reviewed and necessary action taken on a continuing basis.

Accounting for Salary Overpayments

Salary overpayments are not recorded in Accounts Receivable-Abatements, as required by SAM Section 10409. Recording overpayments in Accounts Receivable would strengthen accountability for the overpayments.

Recommendation

We recommend that salary overpayments be recorded in Accounts Receivable-Abatements as per SAM Section 10409.

Workers' Compensation Benefits

Workers' compensation benefits from the State Compensation Insurance Fund (SCIF) are provided to all members of the Military Department, including those who are on federal status, when they incur a disability related to employment. However, Section 340 of the Military and Veterans Code provides that the State shall take credit for, or recover, any similar benefits received by members from federal sources. A portion of or all of the benefits paid by SCIF are therefore subject to repayment if duplicating federal benefits are received by a member. We were advised by personnel of the Military Department that a significant number of members who have received duplicated benefits have failed to reimburse the State. Neither the Military Department nor SCIF has made any concerted effort to collect the duplicated benefits which we were advised exceed \$20,000 a year, with the cumulative total of unrefunded money owed to the State estimated to exceed \$70,000.

Recommendation

We recommend that procedures be established to recover duplicated benefit payments.

Open Estimates

The file of open expenditure estimates has not been reviewed for over a year and the printout of open expenditure estimates is inaccurate.

Recommendation

We recommend that the file of open estimates be reviewed periodically and the printout be reconciled to the file.



EDMUND G. BROWN, JR.
Governor

STATE OF CALIFORNIA
OFFICE OF THE COMMANDING GENERAL
STATE MILITARY FORCES - MILITARY DEPARTMENT
2829 Watt Avenue - P.O. Box 214405
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CAST

27 April 1978

Mr. John H. Williams
Auditor General
925 L Street, Suite 750
Sacramento, CA 95814


Dear Mr. Williams:

Thank you for your letter of April 25, 1978, which transmitted copies of your draft report of the financial audit of the Military Department for the year ended June 30, 1977. As requested, my comments pertaining to that report are provided below.

I welcome your report and accept your comments and recommendations without exception. In some instances corrective action has already been initiated. For example, positive action has been taken to expedite the submission of requests for federal reimbursements; and procedures to follow-up on accounts receivable have been revised. Some of the conditions result, I believe from either an inadequate data processing capability or insufficient staff. I look forward to having funds in my FY 1978-79 budget to initiate and complete a feasibility study to determine methods to enhance my management information system, and I hope to obtain funding that will enable me to augment my limited capacity to administer important programs such as the Workers' Compensation Benefits.

I assure you that your recommendations will be implemented fully and with the least practical delay. I want you to know, too, that your auditors performed their duties in a professional manner and, in so doing, assisted my personnel in gaining better insight to the State's policies and concepts relating to financial administration.

Sincerely,


FRANK J. SCHOBER, JR.
Major General
Commanding

Office of the Auditor General

cc: Members of the Legislature
Office of the Governor
Office of the Lieutenant Governor
Secretary of State
State Controller
State Treasurer
Legislative Analyst
Director of Finance
Assembly Office of Research
Senate Office of Research
Assembly Majority/Minority Consultants
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